

Analysis of the Stage of Absorption of European Funds

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Abstract

The article presents an analysis on this topic, an important topic, because the European funds constitute the essential financial resource, part of the investment strategy, but also of the budgetary sustainability with multiple effects that contribute to the economic and social development of Romania. It should also be taken into account that anyone can become a beneficiary of a project financed from these funds, considered an important engine of growth, with positive consequences on the standard of living and the viable growth of the economy.

The general objective of the article is to analyze the level of absorption of these funds with impact on the economy, infrastructure and the reduction of regional disparities.

We can conclude that an efficient use of these funds is crucial for Romania's regional and economic development, to which is also added the increase in absorption capacity, which will ensure local public authorities an adequate level of funding sources.

Keywords: absorption, budget, European funds

1. Introduction

"The general concept of European funds refers to funding, instruments allocated to the member states of the European Union (EU), to reduce the economic and social development gaps between them. The general concept of European funds designates non-reimbursable financing instruments allocated to reduce the economic and social development gaps between them." [1, 2] Romania benefits from sustained aid for development through European funds, as a member of the European Union. The components of the Structural Funds are: [3]

- The European Regional Development Fund (ERDF), which provides financial support since 1975 for the structural adjustment and

development of regions, the economy, competitiveness, but also territorial cooperation in the EU;

- The European Social Fund (ESF), since 1958, which aims at adaptability, access to employment, social inclusion for disadvantaged people, combating discrimination and creating partnerships.

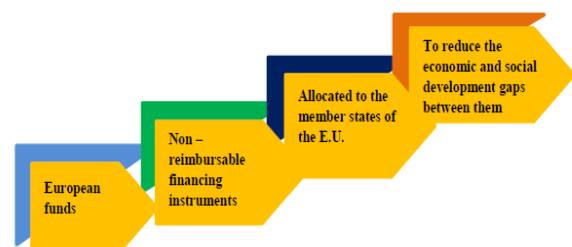


Figure 1. Definition of the concept of European fund
Source: Pripoaic, Rodica, 2022[2]

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The other three funds are: the Cohesion Fund, exclusively supports less developed states with the aim of promoting sustainable development; European Agricultural Fund for Rural Development (EAFRD); and the European Fisheries and Maritime Fund. [3, 4]

Within the framework of the Common Agricultural Policy, European structural and cohesion funds have been allocated to Romania within the framework of the EU cohesion policy. These structural funds are intended to support the convergence of member countries, employment and increasing competitiveness. [5, 6]

Through European funds, Romania has the chance to recover the gaps regarding socio-economic development and become competitive at the European level. In this sense, what is to be presented is focused on the situation of these structural and cohesion funds. The cohesion policy is considered to be one of the important policies of the European Union, and which also integrates the fundamental value of the European Union, namely cohesion. [7]

The different perceptions on the cohesion policy from one state to another placed either convergence in the foreground, others consider competitiveness, thus having significant perception difficulties related to it. [6, 7]

Through the national reform programs, each member state transposes the general objectives of the EU into national targets.

Numerous studies emphasize the importance of structural funds and their positive impact on economic growth. [8, 9]

Fratesi and Wislade appreciate their impact on the growth of EU cohesion policy. [10]

European funds are intended to finance Romania through the 2007-2013 and 2014-2020 financial programs.

Absorption of European funds is a challenge for all Member States, and even more so for recently entered villages. [11-13]

From the study of the statistics, it was found that the states that joined the EU later, have a lower absorption rate of funds. Absorption difficulties have different causes and are encountered at the national and European level. [14, 15]

The purpose of this article was to identify how Romania managed to absorb the European funds that were allocated to it. This aspect was especially important in light of the fact that the future funds allocated to Romania through the

2021-2027 multiannual financial framework must be taken into account.

2. Material and method

In this article, the authors presented an x-ray on the absorption capacity of these European funds in Romania, exclusively considering the structural and cohesion funds, for the programming periods 2007-2013 and 2014-2020. [16]

The data used for the preparation of this article were collected from national and international statistics, from the communiqués of the European Commission and ministries and publications from the literature in the field.

To illustrate Romania's performance in terms of absorption of different funds, the annual absorption rate was calculated.

In this sense, the sectors that did not register a good or inadequate absorption were analyzed, with the mention of the obstacles that determined this situation.

3. Results and discussions

From the analysis of the data provided by the Ministry of European Funds (MFE), for the financial year of the period 2007-2013, Romania was allocated the sum of 19.2 billion euros (table 1 and figure 2) as European structural and cohesion funds, at to which 13.8 billion euros were added through the Common Agricultural Policy.

The member states have the obligation to contribute to the fulfillment of the objectives of the Europe 2020 strategy. In this sense, each country aims to develop a National Reform Program (NRP) through which the global objectives of the EU will be transposed into the national ones. The NRP is submitted together with the Convergence or Stability Program, these programs being integrated into the national budget plans for a period of three years.

The definition of reforms and development priorities for 12 months (starting date July 2014) were carried out in NRP 2014, which was sent to the European Commission by Romania in April 2014, when the measures and directions of action were identified with the aim of facilitating access European funds in the 2014-2020 period and to ensure the increase in the absorption capacity of these structural and cohesion funds.

Analyzing the information presented in table 1, we found that the Transport Sectoral Operational Program spent only 1,064.1 million Euros until January 2014 (approximately 24% of the total allocation for 2007-2013) and remained among the weakest programs operational.

In July 2014, the recommendation of the Council of the European Union related to the National

Reform Program of Romania contained elements with a negative impact that were identified among which: the method of strategic planning and setting priorities at the level of government policy, to which was added the lack budget planning in the case of ministries with major investment portfolios; corruption, conflict of interests and the institutional framework.

Table 1. The absorption situation of structural funds by operational programs (million euros) allocation 2014-2017

	Total allocations 2007-2013 (cumulative)	Payments January 2014	Payments January 2015	Payments January 2016	Payments March 2017
Regional development	3,966.0	1,830.6	2,297.1	2,870.18	3,708.20
Environment	4,412.5	1,434.9	1,986.5	3,076.71	3,983.81
Transport	4,425.9	1,064.1	2,009.3	3,146.48	3,725.70
Competitiveness	2,554.2	938.0	1,462.1	1,728.26	2,409.80
HR	3,476.1	1,622.3	2,015.1	2,164.24	2,799.72
Development of administrative capacity	208.0	104.9	152.9	197.60	197.60
Technical support	170.2	47.7	83.47	139.12	161.72
Total	19,213.0	7,042.4	10,006.66	13,322.59	16,986.55

Source: Annual report, 2013-2016, Fiscal Council [17]

Table 2. The evolution of the absorption rate of structural funds according to allocation programs 2014-2017

	Absorption rate Jan 2014	Absorption rate Jan 2015	Absorption rate Jan 2016	Absorption rate March 2017
Regional development	46.16%	57.92%	72.37%	93.50%
Environment	32.52%	45.02%	69.73%	90.29%
Transport	24.04%	45.40%	73.38%	86.88%
Competitiveness	36.72%	57.24%	68.13%	95.00%
HR	46.67%	57.97%	62.26%	87.49%
Development of administrative capacity	50.45%	73.52%	95.00%	95.00%
Technical support	28.00%	49.03%	81.72%	95.00%
Total	36.65%	52.08%	69.91%	90.44%

Source: Annual report, 2013-2016, Fiscal Council [17]

Comparing the data from January 2015 with January 2014 (Table 2), we found an increase in the rate of absorption of structural and cohesion funds by 15.43% (from 36.65% to 52.08%), as can be seen from the information provided by the Ministry of European Funds. And under these conditions, the level of absorption of the funds is only slightly over 50 percentage points from the funds allocated for the period 2007-2013.

The highest absorption rate in 2015 was recorded for the Administrative Capacity Development Operational Program of 73.52%, which had an initial allocation of 208 million Euros. Low absorption rates (Tables 1 and 2) were recorded by the Transport and Environment Sectoral

Operational Programs 45.40%, respectively 45.02% that had large initial allocations (the Transport Sectoral Operational Program 4.42 billion euros and the average 4.41 billion Euros.

Even if the absorption rate remains modest, progress was visible in 2014 and 2015. In 2014, the absorption rate increased the most in the Operational Program for the Development of Administrative Capacity, and in the case of the Sectoral Operational Program for Economic Competitiveness, the absorption rate registered a considerable advance of 37%

The analysis of the NRP 2016, of the implementation of the Plan of priority measures highlighted the fact that the necessary sums for the

payment of the reimbursement requests submitted by the beneficiaries were secured and the loss of funds was avoided on December 31, 2015.

Although efforts were made, Romania's capacity to absorb European structural funds remained low. Thus, Romania managed to absorb over two thirds of the total funds allocated in the 2007-2013 programming period, respectively 69.91% in January 2016 (Table 2).

The European Commission noted a number of factors that influenced the low rates of absorption of European funds in Romania. As a result, he drew attention that this fact can have a negative impact on the new generation of programs and their execution.

The analysis of the data provided by MFE, for 2017 (table 2) shows that the highest absorption rate was in the Operational Programs, Competitiveness, Development of Administrative Capacity and Technical Assistance, of 95% and the lowest rate in the Sectoral Operational Program Transport and Resource Development Humans, 86.88% and 87.49% respectively.

In table 3, the allocations of funds are presented at the level of 2017. Thus, for Large Infrastructure, the financing was 9.22 billion Euros, being the result of the union between the Transport Sectoral Operational Program and the Environment Program corresponding to the period 2007 - 2013, having a cumulative budget of 8.7 billion Euros.

The Human Capital Operational Program is the program that continues Human Resources from 2007 - 2013, which also includes the new initiative "Jobs for young people with a funding of 4.37 billion euros, more by 1.17 billion euros (table 3 and figure 3).

Also, the operational programs (table 4) that had high absorption rates in the previous period, received more funding by over 65%. For Development compared to 3.97 billion euros, for the Development of Administrative Capacity the financing was 0.55 billion euros, increasing by 0.34 billion euros. For the Technical Assistance Operational Program, funding increased to 0.25 billion euros, compared to 0.17 billion euros.

OP Competitiveness suffered a reduction in funding, decreasing to 1.33 billion euros (2.54 billion euros in the period 2007-2013).

In April 2018 (Table 3), Romania continued to have a low absorption rate of European funds, rating only 9.34% (including pre-financing) of the funds allocated in the period 2014-2020 recorded for the total operational programs.

On operational programs, we found higher absorption rates at the level of the programs with the lowest initial allocations. In the SME Initiative OP, the absorption rate was 83.78%, with a financing value of 100 million Euros, followed by a significant distance from the Technical Assistance OP with a rate of 22.61%, and a financing of 252, 77 million euros. In the next place came Large Infrastructure, 13.15% absorption rate and Administrative Capacity Development with 10.8% and Competitiveness, absorption rate 10.47%. On the last places with low absorption rates were the structural and cohesion funds for OP Human Capital, absorption rate 6.26% and Regional Development with only 4.19%.

From the MFE Reports, in February 2019, CE financing of approx. 3.6 billion euros for the following operational programs: Large Infrastructure - 1,638.6 million euros, Regional - 876.6 million euros, Human Capital - 649.9 million euros, Competitiveness - 226.2 million euros, Technical Assistance - 94.3 millions. euros and Administrative Capacity - 71.7 million euros. After submitting the payment applications, the CE made reimbursements worth around 3.2 billion euros in March 2019.

In March 2019 (Table 4), we observed the improvement of the absorption capacity compared to the end of April 2018. Thus, the absorption rate increased on total funds from 9.3% (2,109.51 million euros) in 2018, to 20.5% (4,634.0 million euros) of the total funds allocated in the programming period 2014-2020 in 2019. At the level of programs, in Technical Assistance , the absorption rate increased to 39.7% in 2019 compared to 22.6% in 2018, in Large Infrastructure 22.4% versus 13.2% and Competitiveness 21.7% versus 10.5.

It should be mentioned that seven operational programs were initially defined (those mentioned above and the SME Initiative), but in October 2018 the integration of the SME program into the Regional program was approved, with a reallocation of over 150 million euro. To the funding granted for the cohesion policy, 19.5 billion euros were added for the Common Agricultural Policy, 168.4 million euros through the Operational Program for Fisheries and Maritime Affairs, 441 million euros through the Operational Program Helping Disadvantaged Persons, but also the within the Connecting Europe Facility instrument.

Table 3. The situation of absorption of structural funds by operational programs for the programming period 2014-2020 (million euros)

	Total allocations 2014-2020 (cumulative)	Payments April 2018	Payments March 2019	Payments February 2020	Payments March 2021	Payments March 2021	Payments January 2022	Payments May 2023
Regional development	6,760.00	283.52	1,218.0	2,025.7	2,875.7	6,860.0	3,707.5	4,853.1
Large Infrastructure	9,218.52	1,212.30	2,066.6	2,756.3	3,942.4	9,338.6	5,253.5	7,872.0
Competitiveness	1,329.79	139.24	287.9	397.4	515.0	2,379.8	752.1	1,689.5
Human Capital	4,371.96	273.80	861.7	1,278.4	2,095.7	4,596.1	2,510.1	3,922.4
Development of Administrative Capacity	553.19	59.73	99.6	154.5	235.9	563.6	293.4	410.1
Technical support Initiative for IMM	252.77	57.14	100.3	151.7	212.6	332.8	242.3	270.3
Initiative for IMM	100.00	83.78	-	-	-	-	-	-
Total	22,586.23	2,109.51	4,634.0	6,764.0	9,877.3	24,070.8	12,758.9	19,017.3

Source: Annual report, 2017-2022, Fiscal Council [17]

Table 4. The evolution of the absorption rate of structural funds by programs, period 2014-2020

	Absorption rate April 2018	Absorption rate March 2019	Absorption rate February 2020	Absorption rate March 2021	Absorption rate March 2022	Absorption rate May 2023
Regional development	4.19%	17.8%	29.5%	41.9%	54.0%	70.7%
Large Infrastructure	13.15%	22.4%	29.9%	45.6%	56.3%	84.3%
Competitiveness	10.47%	21.7%	29.9%	28.1%	31.6%	71.0%
Human Capital	6.26%	19.7%	29.2%	48.0%	54.6%	85.3%
Development of Administrative Capacity	10.80%	18.0%	27.9%	41.9%	52.1%	72.8%
Technical support Initiative for IMM	22.61%	39.7%	60.0%	63.9%	72.8%	81.2%
Initiative for IMM	83.78%	-	-	-	-	-
Total	9.34%	20.5%	29.9%	43.7%	53.0%	79.0%

Source: Annual report, 2017-2022, Fiscal Council [17]

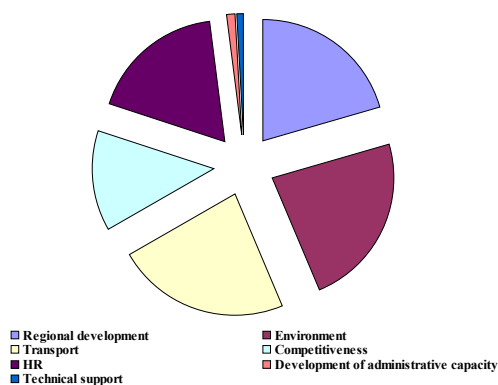


Figure 2. The structure of the amounts received for each operational program, Romania, 2007-2013 period

The data analyzed from February 2020 (Table 4) completes the picture of improvement in the absorption rate of European funds compared to those from March 2019 offered by the Fiscal Council.

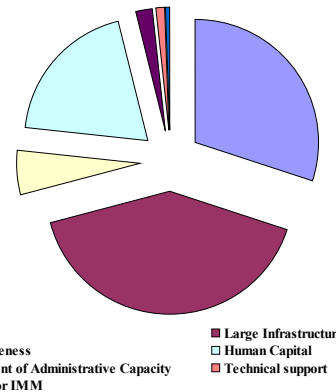


Figure 3. The structure of the amounts received for each operational program, Romania, 2014-2020 period

On total European funds, the absorption rate increased from 20.5% in 2019 to 29.9%. From the MFE situation, it appears that on January 31, 2020 EC, 5.6 billion euros were requested for the following operational programs: Large

Infrastructure, Regional, Human Capital, Competitiveness, Technical Assistance and Administrative Capacity. At the level of operational programs, we noted large increases in the absorption rate of European funds for Technical Assistance of 60% (39.7% in March 2019) and Regional 29.5% (17.8% in 2019). For the other operational programs, the advance was less than 10%: Administrative Capacity - 27.9%, Human Capital - 29.2%, Competitiveness - 29.9% and Large Infrastructure - 29.9%. We can see the tendency of absorption rates to level off, with the exception of Technical Assistance, which registered a high level of the indicator.

In March 2021, we also noted the improvement in the absorption rate of European funds compared to February 2020. The absorption rate of total funds increased by 14%, reaching 43.7% for the period 2014-2020. On operational programs, the situation of absorption was the following in Competitiveness, only 28.1% in decrease compared to February 2020 and 63.9% in Technical Assistance. For the other Programs, the absorption rate increased by approximately 10%: Regional - 41.9% (29.5%), Large Infrastructure - 45.6% (29.9%), Human Capital - 48% (29.2 %) and Administrative Capacity - 41.9% (27.9%).

Analyzing the data from March 2022, the absorption rate continued to grow by almost 10%, reaching 53% of the total structural funds for the period 2014-2020. At the level of operational programs, the first place was the absorption rate of Technical Assistance, 72.8%, and the last place

was the rate recorded by the Competitiveness program, only 31.6%.

Following the analysis of the data available from May 2023, the improvement of the absentee rate registered an increase of 26 percentage points, reaching the level of 79% of the total funds allocated to the 2014-2020 program period. The analysis by program has a common characteristic, 24 percentage points as an average of the growth rates, and the tendency of equalization between them of the absorption rates.

We found a recovery in the level of absorption rates in OP (Operational Program) Competitiveness (71%), OP Human Capital (85.3%), OP Technical Assistance (81.2%), against an already high absorption rate in 2022.

In the Large Infrastructure OP, the absorption rate level reached 84.3% in 2023, compared to 56.3% in 2022, the Regional OP recorded 70.7% in 2023 compared to 54% in 2022 and the Administrative Capacity PO,72, 8% in 2023 compared to 52.1% in 2022.

According to the data published by the European Commission, comparing the absorption rate of European funds in Romania with other new E.U. member states, the absorption rate continues to be the lowest, 58.7% in February 2015 after eight years after joining the EU, compared to the penultimate country, Slovakia, in the ranking, with an absorption rate of 60.1% in 2014 and Bulgaria with an absorption rate of 65.5%.

In January 2016, Romania recorded an advance in the structural funds absorption rate of 69.91%, according to E.C. data.

Table 5. Absorption of structural funds for the programming period 2014-2020 – comparison with other EU member states at the level of May 2023

	Total allocations 2014-2020 (billion euros)	Payments 2023 (billion euros)	Absorption rate 2023 (%)	Total allocations 2014-2020/inhabitant (euro)	Total payments/inhabitant 2023 (euro)
Bulgaria	8.0	6.0	75.2	1.098.4	825.7
Czech Republic	22.7	20.0	88.1	2.157.1	1.901.4
Croatia	9.1	6.0	65.7	2.146.3	1.409.4
Estonia	3.7	3.5	94.4	2.813.6	2.656.4
Latvia	4.6	3.6	78.5	2.318.6	1.819.6
Lithuania	7.0	6.6	94.0	2.389.5	2.245.3
Poland	78.8	72.6	92.2	2.072.6	1.910.0
Romania	24.1	19.0	79.0	1.206.7	953.4
Slovakia	14.3	10.7	74.8	2.638.2	1.973.4
Slovenia	3.3	3.0	89.4	1.619.0	1.446.6

Source: Annual report, 2022, Fiscal Council [17]

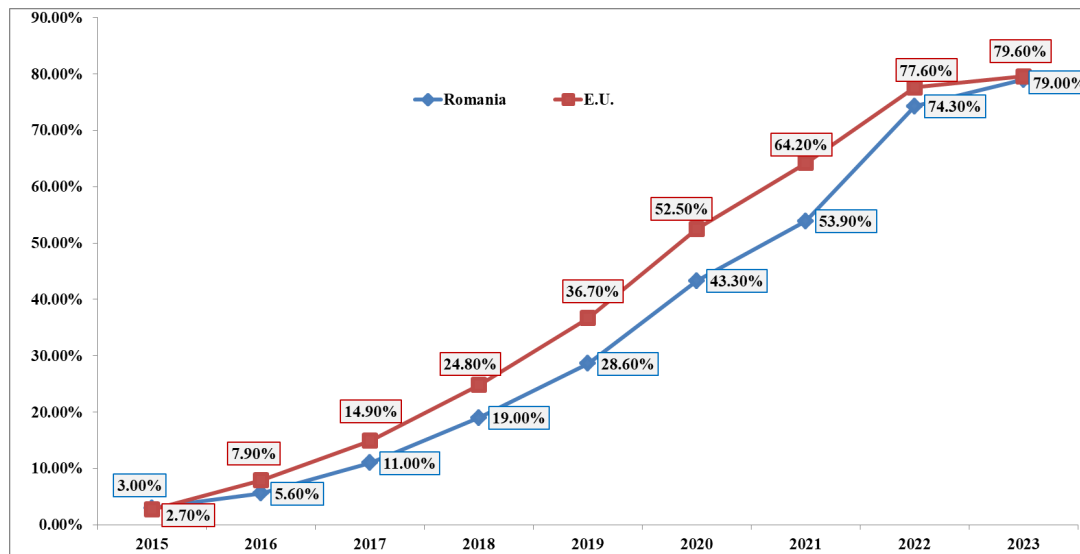


Figure 4. The evolution of the absorption rate of European funds in Romania and the EU average
 Source: Annual report, 2013-2022, Fiscal Council [17]

Table 5 presents, at the level of May 2023, Romania's situation compared to EU member states in Eastern and Central Europe. For the 2014-2020 period, most states, including Romania, received larger structural and cohesion funds compared to the previous year. There were also exceptions, the Czech Republic (22.7 billion euros in the current financial year compared to 26.5 billion euros the previous financial year), Slovenia (the current financial year 3.3 billion euros compared to the previous financial year 4.1 billion euros) and Hungary (current financial year 22.5 billion euros compared to 24.9 billion euros in the previous financial year). Latvia, is a special case because following the present, it registered an increase in allocations

By relating the allocations received from the EU to the number of inhabitants, it can be seen that Romania occupies the penultimate place, 1,207.6 euros/inhabitant, with Bulgaria in last place (1,098 euros/inhabitant). Eight states out of the eleven analyzed are at the opposite pole, with allocations exceeding 2,000 euros/inhabitant, in first place being Estonia (2,814 euros/inhabitant) followed by Slovakia (2,638 euros/inhabitant) and Lithuania (2,389.5 euros/inhabitant).

The evolution of the absorption rates for the structural and cohesion funds in Romania analyzed in comparison with the EU average shows a reduction of the gap with the EU states. As can be seen in Figure 4, the financial year 2014-2020 encountered difficulties in Romania and the EU, due to delays related to the

finalization of the legislative, functional and institutional framework related. The first years recorded low absorption rates, in Romania being close to the average recorded at the EU level. Since 2016, the gap created between the absorption rate of funds in the EU and Romania has been unfavorable and continued to grow until 2021. The last two years analyzed show a reduction of the gap compared to the EU average, in May 2023, the difference of was only 0.6%.

4. Conclusions

Romania was allocated European cohesion and structural funds in the financial year 2007-2013 in the amount of 19.2 billion euros. The result of sustained efforts was seen in the results obtained by increasing Romania's capacity to absorb European structural funds. The end of March 2017 was marked by the absorption rate of 90.44% of the total funds allocated to Romania, in the period 2007-2013.

For the financial year 2014-2020, Romania was allocated approximately 24.1 billion euros in structural and cohesion funds, which were structured on six operational programs.

The absorption rate registered a slow increase in 2018 and 2019, followed by an advance, the absorption rate being close to the European average.

In order to revive the absorption rate, Romania made additional efforts to increase it. Among these we mention the key factors: early project preparation, an increase in administrative capacity,

planning and management, prioritization, a strategic development plan.

This situation is also the result of the experience accumulated in the previous financial framework, which allowed the remediation of problems that may arise during the absorption period.

The member states have increased their efforts to absorb European funds in the current financial framework through the improvement directions: improving administrative capacity, exchange of experts and training, implementation, financial control and project management, simplified public procurement proposals.

Comparing the absorption rates of European funds in the two programmed periods, progress is evident. This is the result of the experience of the administrative institutions, accumulated in the different stages of program implementation, the relationship with beneficiaries, information and transparency.

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